Sound Money League
of Pennsylvania

Document No. 16

An Argument

for the

Gold Standard

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The Sound Money League of Pennsylvania,
The Bourse,
Philadelphia.

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[Reprinted from the *Bond Record* of August, 1896.]

The people of the United States are face to face with a crisis in their history. On the first Tuesday in November next they must determine whether the nation is to adhere to the existing gold standard of value, or to adopt the silver standard.

The arguments for the maintenance of the gold standard are easily stated, and, when clearly apprehended, they are unanswerable.

Some of these arguments are as follows:—

Every civilized country must have money, not only as a medium of exchange, but also as a standard by which the value of all representatives of money and of all exchangeable commodities can be measured.

The distinction between the two functions of money is fundamental, and much of the present popular misapprehension upon the silver question has come from a failure to appreciate the force of this distinction. People in general do not realize that while that money which is the standard of

value will always serve also as a medium of exchange, yet other money of inferior value can in no sense be a satisfactory standard of value, and can only be a satisfactory medium of exchange when it is convertible at par into the money of standard value.

It is within the province of government to designate the standard of value, and to provide by its own action, or by the action of agencies of its creation, the money or the representatives of money constituting the media of exchange, but there are certain impassable limitations upon the exercise of this power.

The first limitation is this :—

No civilized country can confine its citizens within its own territory, nor prohibit all commercial intercourse with other countries. Every country, therefore, needs money which can be used in purchases from, and in payment of its debts to, other countries. Yet, howsoever great a country may be, and howsoever absolute may be the power of its government, its laws can have no extra territorial effect. No government, therefore, can prescribe the standard by which its currency shall be valued in any other country, nor compel the citizens of another country to receive its currency save at the bullion value of that currency in the markets of the world.

The second limitation is this :—

While a government can, within its territory, define that which shall constitute a legal tender in satisfaction of contracts, past and future, it cannot

by legislation fix the purchasing value of its money, for money is a commodity and its value is determined in the markets of the world under the laws of trade, and the laws of trade, like the laws of nature, are stronger and more far-reaching than any constitutions or statutes. The best money is the money of greatest purchasing power, and that money has the maximum of purchasing power which is exchangeable at par, not only in the country from whose mint it is issued, but also in the markets of the world.

The third limitation is this:—

No government can maintain at one time more than one standard of value any more than it can maintain more than one standard of weight, or more than one standard of measure, or more than one standard of length. If there be two or more standards of different value, the standard of lower value will in practice become the only standard. If one goes into the market, the law being that a yard shall be either two feet or three feet in length, and buys carpets by the yard at a fixed price, there will be delivered to him carpets measured in yards of two feet in length. If he buy coal by the ton, the law being that a ton shall be either two thousand or twenty-two hundred and forty pounds, he will receive tons of two thousand pounds each. If he buy potatoes by the bushel, the law being that a bushel shall contain either two pecks or four pecks, there will be delivered to him bushels of two pecks each. On the same principle if the law be that a dollar is either a gold coin with

a bullion value equal to its face value, or a silver coin with a bullion value of only half its face value, and not convertible at par into the gold coin, the sellers of the carpets, the coal, and the potatoes will be paid in dollars of the lesser value.

There never has been and there never can be, in any country at any time, a bimetallic standard, and the attempt to create a double standard has never produced anything better than an alternating standard, with the inevitable consequences of injustice with reference to past contracts, and uncertainty with reference to future contracts. Indeed, Senator Jones admits in the "Report of the Silver Commission of 1876," that "whenever under the double standard there is a variance between the legal and market relations of the metals, the standard would be practically based on one metal, and it the cheaper and more available one." The financial history of the United States and of France furnish conclusive evidence of the accuracy of the Senator's view on this point.

The fourth limitation is that the standard must have an intrinsic market value.

Most of the present advocates of the silver standard formerly argued that an irredeemable paper currency could constitute at the same time the standard of value and the chief medium of exchange. No one will now argue that in the face of the history of the French assignats, or of our Continental currency, or of the Confederate notes, or of the more recent Argentine experiment.

Yet, if the governmental fiat can give value to that material, which, without that fiat would be

valueless, or if the Government can give an increased value to that which without that fiat would have a relatively less value, the operation of the fiat, or the failure of the fiat to operate, cannot in either case depend upon the substance upon which the Government stamps its fiat. Therefore, if the fiat of the Government can make a silver dollar of 53 cents bullion value worth $1 in gold, it can effect the same result in the case of an irredeemable paper dollar, whose intrinsic value is nothing more than the cost of the paper and engraving; and conversely, as it cannot, as everybody now concedes, make, by its mere fiat, an irredeemable paper dollar equal in value to a gold dollar, it cannot raise the depreciated silver dollar to a par with gold. The market ratio of silver to gold is 30 to 1. The proposed legal ratio under free coinage is 16 to 1. There is no magic in silver bullion, nor in the ratio of 16 to 1. If the Government, by offering to buy all the silver in the world at double its present market price, could maintain the price so raised, it could effect the same result for any commodity and at any ratio.

The concensus of competent opinion in the civilized world has, therefore, determined that the standard must have a market value independently of any governmental fiat and of all legal-tender laws; that it must be durable; that it must be homogeneous; that it must be a metal; that it must have a maximum of value proportioned to its bulk; that it must have, as a commodity, as stable a market value as possible, and that, in order to secure the stability of that market value, the relation

between its supply and demand must be as constant as possible. Gold alone fulfills these conditions. The civilized world has, therefore, declared that gold must be the standard of value just as it has declared that railroads shall supersede stage coaches, and that steamships shall take the place of sailing vessels. It is as impossible to go back to silver as a standard of value as it is to return to the exclusive use of stage coaches and sailing ships. The standard being thus established, all other money, and all representatives of money, are of value as money only in so far as they are convertible at par into the standard money. Any possible money is, therefore, of one of two kinds. This first kind is that which, by reason of its market value as a commodity being equivalent to its face value as money, has, by common consent, been adopted as the standard of value. The second kind is that which, being representative in its character and having little or no market value as a commodity, is convertible at par into money of the standard value. To-day gold is the only money of the first kind. United States notes and certificates, National bank notes, silver dollars, the money of small change, subsidiary silver, nickel and copper coins and bank drafts and checks, are money of the second kind. Under modern conditions of business, purchases, sales, loans, the discharge of debts, and even payments of wages, are effected in great part by those representative forms of money —drafts, checks or transfers of bank credits. While the work which the money of the standard value actually performs in the exchanges of the

country is relatively small, yet every one of those exchanges is based on the existing standard of value. If there be a satisfactory standard of value into which all the money of the country is convertible at par, there may be whatever, and as much, money or representatives of money as the convenience of the people may require.

The gold standard, therefore, does not imply gold monometallism. On the contrary, it implies not only the largest possible use of silver, of notes and of all other representatives of money so long as there can be maintained the convertibility of those representatives of money at par into gold, but also the freest possible use of credit forms of money. The gold standard therefore means, not contraction, but the greatest possible expansion within the bounds of safety.

As gold derives no value from any legal-tender law, nor any value from coinage at the mint, beyond, as Lord Farrer has said, "the ascertainment that its weight and purity are what the law requires," and the certifying by the Government's stamp that it possesses those qualities, it is, and it ought to continue to be, admitted to free coinage. On the other hand, copper pennies, nickels, half dimes, silver dimes, quarters, half dollars and dollars, being only token coins, in that their face value as coins more or less largely exceeds their bullion value, should be coined only upon government account, should be issued from the mint only in exchange for gold coin at par, should be redeemable in convenient multiples in gold coin at par, and should be a legal tender for only relatively

small sums. Under this system there could be no arbitrary contraction or expansion of the currency, nor any tampering with the standard of value, and the people would then carry to their credit in the ledger of the Treasury Department that profit which the owners of silver bullion blindly hope to appropriate to themselves if silver be admitted to free coinage.

The market price of any commodity depends not only upon the relation between the demand for and the supply of the commodity, but also upon the standard of value by which is measured the medium of exchange in which the payment is made. From 1862 to 1879 we were familiar with the distinction between gold prices and currency prices. If the free coinage of silver were to come we would, to our cost, become familiar with the distinction between gold prices and silver prices.

The admission of silver to free coinage means, taking the figures for 1895, when the average market price of silver in gold was 67 cents per ounce, that anybody who could take one ounce of silver to the mint would, if the gold standard could be maintained with the free coinage of silver, receive in payment therefor the money of the United States to the amount of $1.29 in gold, thereby making on each ounce of silver a profit of 62 cents, not for the people of the United States, but for the owner of the silver bullion.

Every one who can reason ought to see that the result would be that the $1.29 would, under the free coinage of silver, instead of being paid in gold or its equivalent, be paid in silver or its equivalent,

and that the rise in the value of silver would be fictitious and not real. Every one ought also to see that if the nominal prices of all commodities were to rise in like proportion their rise would be fictitious and not real, for that rise would be measured, not in gold, but in a depreciated currency with a purchasing power diminished in like proportion.

If the country could abstain from all international business, and if the prices of all commodities and the wages of labor were to rise in an exact proportion to the depreciation of the currency, a lowering of the standard of value would be relatively unimportant, but as the country must pay its debts to foreign countries, must sell to them its surplus products, and must continue to buy from them those commodities which it cannot produce, or cannot produce as cheaply, and, as prices and wages never do rise or fall in an exact proportion to the appreciation or depreciation of the currency, it necessarily follows that a material lowering of the standard of value will be productive of an amount of uncertainty and confusion which will cause widespread ruin and distress.

In the absence of an express covenant to pay in gold coin of the present standard of weight and fineness the obligations of the United States, the obligations of the States, the obligations of all municipalities, the obligations of all private corporations, the obligations of all individuals, receipts of income from every source, the proceeds of policies of life insurance, the deposits in banks, the deposits in savings funds and the wages of labor, would then be payable in the same

depreciated currency, and individual and corporate bankruptcy, and, worst of all, national dishonor would follow.

Are the people of the United States ready for that? I feel confident that they are not, for I put my trust in the honor and in the intelligence of the American people.